



CANANDAIGUA NATIONAL CORPORATION  
72 South Main Street  
Canandaigua, NY 14424

George W. Hamlin, IV  
Chairman of the Board and CEO  
Frank H. Hamlin, III  
President

December 26, 2012

To Our Shareholders:

Our communication, today, relates to an announcement of an unprecedented special dividend which the CNC Board of Directors approved December 12th, 2012, the last regular board meeting of the year.

The extended “Bush Tax Cuts” are scheduled to expire on December 31, 2012, and certain other taxes will be implemented for the first time. Among the effects which these changes could have if not altered by Congress beforehand are the reclassification of dividends as ordinary income and increases in marginal tax rates which will result in a nearly tripling of the marginal tax rate on dividends from the current qualified rate of 15% to a potential new marginal tax rate of 43.4% (top rate 39.6% plus the new 3.8% Medicare tax on investment income (dividends, interest, and capital gains). These changes would adversely impact you, our Shareholders, for any dividends paid to you in the New Year 2013 and beyond.

Because of the uncertainty of the United States fiscal policy currently under debate in Congress, including the taxation of common stock dividends in 2013, a special dividend payment will be made on December 27, 2012 to shareholders of record December 22, 2012.

In effect, this will be an acceleration of the common stock dividend that would normally have been paid in February 2013, based upon the performance of the Company for the most recent six months ending December 31, 2012. Of course, this has the effect of shifting the taxability of the February 2013 dividend to the current 2012 tax year. The rules for 2012 are well known having been enacted back in 2010 as part of a stimulus strategy for the 2011 and 2012 tax years. Accelerating declaration and payment of the normal first dividend of 2013 just five weeks to December 27, 2012 will save many shareholders from paying the new Medicare tax of 3.8% mentioned above and perhaps a much higher marginal tax rate than the current 15%. Thus, with the early payment of the normal February 2013 dividend by accelerating it in this “special” way, we would then anticipate the next regular dividend would be paid in

August 2013. This would be in accord with our usual practice of distributing a share of the annual earnings two times during the calendar year (in August for the recent six months ending June 30 and in February for the recent six months ending December 31) as has been our custom since the Great Depression.

We are pleased to report a cash dividend of \$1.63 per common share. This amount represents a 2 cent increase over our August 2012 dividend of \$1.61 per share, and a 13 cent increase over our February 2012, dividend of \$1.50 per share, these two normal dividends amounting to \$3.11 for the “historical record for the normal dividends” for the year 2012. That said, for audit and tax purposes to this normal amount of \$3.11 will be added the amount of this special dividend of \$1.63 giving \$4.74 for a total amount to be reported by you for tax purposes for CNC dividends paid in 2012. Of course, this may result in a change to your estimated tax payments coming up soon on January 15, 2013 (the 4<sup>th</sup> installment for your 2012 estimated tax) for both Federal and State Income taxes payable against your estimated for 2012 income. Do please consult with whoever computed your estimates for 2012 in connection with filing last year’s 2011 returns to determine if a revised amount should be paid January 15, 2013 as a result of this third and special dividend for the current year 2012.

The best financial interests of you, our Shareholders, were foremost in our minds as we considered and acted on this special dividend payment in response to Congress’s failure to deal with the Fiscal Cliff in a timely and responsible manner by the date of this writing.

If you should have questions please contact Richard H. Hawks, Senior Vice President – Senior Fiduciary Officer or his assistant Kathy L. Lafler at (585) 393-6056, or email at RHawks@cnbank.com.

Happy Holidays!



Frank H. Hamlin, III  
President



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